

HERITAGE PERSPECTIVE

CELEBRATING

25
YEARS

HIG HERITAGE
INVESTMENT GROUP

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Heritage Update

GIVING THANKS

As we approach this holiday season, we are grateful for the relationships we have built over the past 25 years. Thank you for allowing us to participate in your financial lives. Our goal is to provide peace of mind so that you and your family can enjoy the things that matter most. We wish all of our clients and their families very happy holidays!

EXPRESSIONS OF GRATITUDE

Giving back is our way of sharing in what we have and as such, Heritage is participating in various charitable events this holiday season. Assembling personal care packages for families of children receiving care at the Conine Clubhouse at Joe DiMaggio Children's Hospital, and honoring our deceased veterans by participating in Wreaths Across America are just some of our expressions of thanks.

ACHIEVING YOUR GOALS

A secure financial future is what we all strive for. For the past 25 years, Heritage has worked to help our clients make their dreams a reality. We have consistently applied an unemotional investment process and comprehensive financial planning to help our clients achieve their financial goals. Markets can be unpredictable; results don't have to be.



EMPLOYEE PROFILE

Ian McCarver

Ian McCarver is a partner at Heritage and the firm's Controller. Having started with the firm in 1994, Ian now manages a number of executive functions and has a deep commitment to our clients and our employees. An avid Florida State fan and alumnus, he can often be found cheering on the Seminoles. Ian is an active member of the local Rotary Club and resides in Lighthouse Point with his wife and daughter.

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*"I am grateful for what
I have. My thanksgiving
is perpetual."*

— HENRY DAVID THOREAU

ABOUT HERITAGE

Heritage Investment Group provides wealth management and investment guidance to high-net-worth individuals, families, charitable foundations and qualified plans. Since 1993, we've built our firm on a strong foundation of family and friendships with guiding principles of ethics and integrity. As independent advisors, we are fiduciaries bound by law to put our clients' interests before our own, but we also do so out of respect for the legacies entrusted to our care and the lifelong effort spent building them.



How I Learned to Stop Worrying and Love the Black Swan

“I know that history is going to be dominated by an improbable event, I just don’t know what that event will be.”

– NASSIM NICHOLAS TALEB, *THE BLACK SWAN*

Johannes Gutenberg was a German printer, publisher, and goldsmith who lived a privileged but rather ordinary life until, in 1440, an idea occurred to him “like a ray of light.” His idea was to introduce movable type into the printing process, an invention that increased the printing efficiency of books by a factor of 100. The resulting mass production of books accelerated the spread of renaissance ideas, sharply increased literacy rates, and forever improved the lives of ordinary people in Europe and across the world. This was possibly the single most important event of the second millennium, yet no one, not even Gutenberg himself, saw it coming.

Unforeseen events of great importance such as the invention of movable type have come to be known as “black swans.” Black swan events are irregular and improbable, and they have a large, lasting and unpredictable impact within their sphere of influence. The French Revolution, the invention of the internet, the 911 attacks, the success of the Star Wars franchise, and your first encounter with your future spouse all fall into the black swan category. These events have a far greater impact on the world than all of the mundane, anticipated events that we see every day, and their unpredictable nature makes our own lives equally unpredictable.

“This is why a properly diversified portfolio administered by an objective, disciplined advisor is indispensable in such an unpredictable world.”

Bulls, bears, and black swans

Black swans not only influence the major events in world history and our own love lives, they are the primary drivers of investment markets as well. The Wall Street crash of 1929, oil price shocks in 1973, the dotcom boom of the 1990s, and the global financial crisis of 2008 were all black swan events that had a lasting impact on the capital markets.

The overriding influence of these black swan events has two important implications for investors. First, the sheer scale of a black swan renders the typical day-to-day financial news irrelevant by comparison. While mundane events such as economic figures

and corporate earnings may cause markets to gyrate, these price movements are merely short-term noise. The more infrequent, but far more important, black swan events and the world’s response to them are what truly determine the long-term results of the markets.

Second, the unpredictable nature of black swan events makes the capital markets themselves unpredictable. Professional strategists and amateur investors both spend considerable time attempting to guess what the future will look like and which company or industry will outperform in that future environment. The problem with this approach is that the major black swan events that truly determine what this future environment will look like are, *by definition, unknown and unknowable*. Thus, the influence of black swans not only makes an overwhelming majority of the news irrelevant, it makes accurate forecasting of the market impossible.

“I knew that was going to happen.”

Perhaps the most peculiar aspect of black swans is that they tend to seem obvious after-the-fact. Now that you know how pervasive internet technology is, it is tempting to believe that you recognized its potential from the beginning. And, having seen the economic devastation of the global financial crisis, it is easy to convince yourself that you saw it coming.

The truth is that the world is not as predictable as we like to believe, and events that seem obvious in hindsight were not nearly so obvious before they occurred. Perhaps you saw a glimpse of



the potential of the internet in the early 1990's, but you could not have foreseen the demise of early winners like AOL or the unimaginable success of Google 20 years later. You may have felt uncomfortable with bank lending practices and real estate prices in 2006, but you did not foresee the spectacular bankruptcy of Lehman Brothers and the near-collapse of the global financial system that followed. The specific consequences of these black swans were impossible to predict, and the story of their influence is still being written.

Love the black swan

Understanding the nature and implications of black swans can be a bit unsettling; after all, this knowledge requires us to accept the fact that we have no idea what the next big event will be. Yet, it is important to recognize that black swans are often very positive events, and that unpredictable does not mean unprofitable.

The stock market offers attractive returns as compensation for the risk of black swans; they are part of the process. The difficult part for most investors is to maintain discipline when one of these unforeseen events occurs. This is why a properly diversified portfolio administered by an objective, disciplined advisor is indispensable in such an unpredictable world.

The global stock market has been a reliable generator of wealth over the long-term; sometimes because of the positive black swans, and sometimes in spite of the negative ones. Those of us who are willing to embrace the uncertainty of black swans, accept that markets are unpredictable, and ignore the short-term noise of mundane events will be rewarded in the long run. In the meantime, we can take some solace from an old Danish proverb: "Making predictions is difficult, especially about the future."

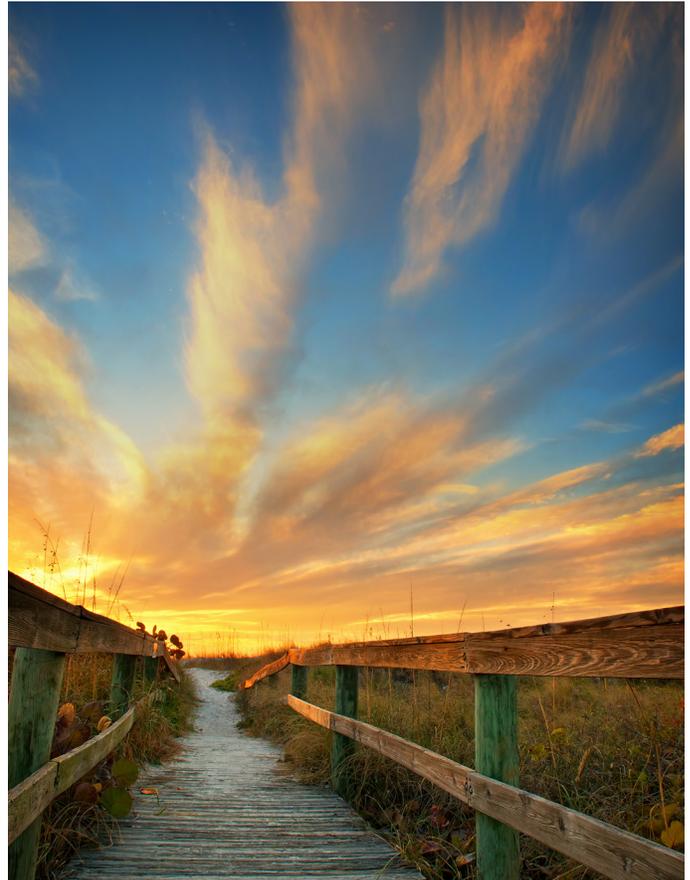
The original version of this article was written by Heritage for the July 2016 edition of The Light, a local magazine serving Broward County, Florida.



The Tao of Wealth Management

The path to success in many areas of life is paved with continual hard work, intense activity, and a day-to-day focus on results. However, for many investors who adopt this approach to managing their wealth, that can be turned upside down.

"It means that in some areas of life, such as investing, greater activity does not necessarily translate into better results."



The Chinese philosophy of Taoism has a phrase for this: "wei wu-wei." In English, this translates as "do without doing." It means that in some areas of life, such as investing, greater activity does not necessarily translate into better results.

In Taoism, students are taught to let go of things they cannot control. To use an analogy, when you plant a tree, you choose a sunny spot with good soil and water. Apart from regular pruning, you let the tree grow.

This doesn't mean that we should always do nothing. In fact, insights from financial science suggest you should direct your investment efforts to the things you can control. These include taking account of your own preferences and sensitivities when choosing investment strategies, diversifying your allocation to moderate the ups and downs, being mindful of the impact of fees, and exercising discipline when emotions threaten to blow you off course.

Successful investing requires taking actions that can have a positive impact on the outcome. For instance, to maintain their desired asset allocation, investors should regularly rebalance their portfolio by reallocating money away from strongly performing assets.

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But rebalancing is a disciplined, premeditated activity based on each person's circumstances. It contrasts with the "busyness" of reflexively following investment trends and chasing past returns promoted through financial media. Look at the person who fitfully watches business TV or who sits up at night researching stock tips. That sort of activity is likely counter-productive and can add cost without any associated benefit. With investing, constantly tinkering with an allocation does not correlate with success.

*"As the ancient Chinese proverb says:
'By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning.'"*

Now, while that makes sense, many people struggle to apply those principles because the media tends to look at investing through a different lens, focusing on today's news, which is already priced in, or on speculating about tomorrow. Guesswork can surely be interesting. But is it relevant to your long-term plan? Probably not.

People caught up in the day-to-day may constantly switch mutual funds based on past performance, or attempt tactical changes in their allocation, or respond in a knee-jerk way to news events that turn out to just be noise. Again, the assumption underlying these approaches is that if you put more effort into the external factors and adjust your position constantly, you will get better results. Unfortunately, people may end up earning poorer long-term returns from trading too much, chasing past performers, or attempting to time the market. Ultimately, that's just another reminder of the potential benefits available to disciplined investors who stay focused on what they can control.

As the ancient Chinese proverb says: "By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning."



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Heritage Investment Group is pleased to celebrate 25 years helping people plan their financial futures and we would like to thank all of our clients for their continued support. Helping people navigate financial markets and secure their investment goals is paramount to our firm. If you have any friends or other family members who might benefit from our expertise, we would welcome the opportunity to speak with them, and can be reached at 954-785-5400.

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